

## 2007 PACT RULES

### SECTION 1 DEFINITIONS

Additional definitions and a list of Administrative Fees are available in the Disclosure Statement.

**1.00 “Actuarial Assessment”** means a contract amount assessed to compensate the Trust Fund for loss of earnings. For an unpaid or partially paid lump sum account, this amount will be 1% of the outstanding balance per month after the payment due date. For the reinstatement of a Monthly Payment Plan the Actuarial Assessment is the difference between the future value of the prescribed monthly payments and the future value of the payments actually made by the Contract Purchaser. The Actuarial Assessment for a change from the Extended Payment Plan to the 5-Year Payment Plan is the difference between the future value of the PACT Contract payments of each plan.

**1.01 Contract – “Four-Year University”** - means PACT benefits for the payment of Alabama instate public undergraduate tuition of up to 128 semester hours and payment of Qualified Fees for up to eight (8) registrations on a semester system at all Eligible Educational Institutions.

**1.02 Contract – “One-Year ”** – means PACT benefits for the payment of Alabama instate public undergraduate tuition of up to 32 semester hours and payment of Qualified Fees for up to two (2) registration on a semester system at all Eligible Educational Institutions.

**1.03 “Current Tuition Value for the Four-Year Universities”** means the weighted average (by resident headcount) of instate tuition and Qualified Fees for the previous fall term (calculated annually on January 1) at the Alabama “Four-Year Universities”.

**1.04 “Four-Year Universities”** means Alabama regionally accredited public postsecondary educational institutions offering credit that leads to, at a minimum, a baccalaureate degree.

**1.05 “Interest”** means the average of the passbook savings interest rates paid by the four largest banking institutions in the State of Alabama as of September 30<sup>th</sup> of each year.

**1.06 “Matriculation”** means the process of enrolling and attending an Eligible Educational Institution.

**1.07 “Qualified Fees”** means those fees approved by the Board which are required as a condition of enrollment for all students attending the Eligible Educational Institution in which the Designated Beneficiary is enrolled. A list of Qualified Fees for Alabama public institutions is available at [www.treasury.alabama.gov](http://www.treasury.alabama.gov).

**1.08 “Redemption Value”** means the sum of PACT Contract payments made, less any Administrative Fees and benefits paid, plus Interest, as of the date of cancellation.

**1.09 “Substitute Beneficiary”** means an Immediate Family Member of the Designated Beneficiary as defined by the Internal Revenue Code of 1986 and named by the Contract Purchaser to receive, in place of the originally named Designated Beneficiary, the benefits provided under the PACT Contract.

**1.10 “Successor Account Owner”** means an individual, named by the Contract Purchaser, who meets the requirements to be a Purchaser and becomes the owner of the PACT Contract upon the death of the Contract Purchaser.

## **SECTION 2** **ENROLLMENT**

**2.00 PACT Enrollment Period** -A PACT Contract may be purchased during the enrollment period which is October 1 through December 31. Applications accepted after the enrollment period will require applicable late fees and an Actuarial Assessment.

**2.01 Application** -Any individual, corporation, trust, charitable organization, or other entity desiring to enter into a PACT Contract on behalf of a Designated Beneficiary must submit a completed and signed application during the enrollment period. A PACT application may be obtained from the Treasurer’s website at [www.treasury.alabama.gov](http://www.treasury.alabama.gov) or by calling PACT at 1-800-ALA-PACT or 334-242-7514.

**2.02 Participation and Payment Schedule** -After review and acceptance of the application, the Contract Purchaser will be mailed a Participation and Payment Schedule which details information submitted in the application. It is the Contract Purchaser’s responsibility to verify the accuracy of this information and request any applicable changes within 60 days of receipt.

**2.03 Projected College Entrance Date** – At the time of application, the Designated Beneficiary’s Projected College Entrance Date corresponds to the beneficiary’s current age and/or grade as provided on the application. This date is provided in the Participation and Payment Schedule and should be verified by the Contract Purchaser. The Contract Purchaser may request a change in the Projected College Entrance Date by completing a Certification Form within 60 days of receipt of the Participation and Payment Schedule. Thereafter, a written request should be submitted to change the Projected College Entrance Date and additional PACT Contract payments, as well as an Actuarial Assessment will be applied if the date is changed to an earlier year.

## **SECTION 3** **THE PACT CONTRACT**

**3.00 General**-The PACT Contract shall consist of the completed application signed by the Contract Purchaser, the Participation and Payment Schedule, and the Disclosure Statement and Rules.

**3.01 Contract Benefits** –Benefits can be purchased for a “Four-Year University” Contract or a “One-Year” Contract.

**3.02 Contract Term**- Benefits under a PACT Contract may be received for up to a ten (10) year period after the Projected College Entrance Date of the original Designated Beneficiary. This period will be extended per year of active military service by the Designated Beneficiary.

**3.03 Contract Term Expiration** - If a PACT Contract has not been canceled or terminated within ten (10) years from the Projected College Entrance Date of the original Designated Beneficiary, or from the actual college entrance date for an accelerated student, reasonable effort will be made to locate the Purchaser. If the Purchaser cannot be located, PACT will calculate the Redemption Value of the contract and will transfer

this amount to the Unclaimed Property Division of the State Treasurer's Office according to Code of Alabama, Title 35, Chapter 12.

**3.04 Contract Modifications**-All requests by Purchasers for a modification of the PACT Contract provisions must be submitted in writing and must be accompanied by the applicable administrative fee. A list of these fees is available in the Disclosure Statement or at [www.treasury.alabama.gov](http://www.treasury.alabama.gov). Forms for PACT Contract modifications are available on line or by request from PACT.

**3.05 Contract Conversions** - Conversions between PACT contracts are not permitted.

**3.06 Contract Prices**- PACT Contract prices will be established by the Board for each enrollment period. PACT Contract prices do not include the application processing fee, but do include a nonrefundable account maintenance fee. After a Purchaser has entered into a PACT Contract, the PACT Contract price will not change, unless otherwise specified herein.

**3.07 Termination of Contract Benefits** – For a “Four-Year” University Contract or a One-Year Contract, the contract terminates when the Designated Beneficiary **uses all of the tuition hours or receives a baccalaureate degree**, whichever comes first. All contracts terminate 10 years from the original Designated Beneficiary's Projected Enrollment Year.

**3.08 Limitation on Number of Contracts Per Beneficiary** – Only one (1) “Four-Year” University Contract or up to four (4) One-Year Contracts is allowed per Designated Beneficiary.

## **SECTION 4**

### **PACT CONTRACT PAYMENTS**

**4.01 PACT Contract Payments**-PACT Contract payments are based on the age/grade of the Designated Beneficiary. Monthly payments are calculated based on an implied rate of interest and include a monthly account maintenance fee.

PACT Contract payment schedules are as follows:

- (a) A lump sum payment due in full on February 1; or
- (b) Monthly payments over a period of sixty (60) months. The payments shall begin on February 1 and will continue on a monthly basis thereafter until the PACT Contract is fully paid. The amount of the monthly payment is specified in the Participation and Payment Schedule. The sixty (60) month payment option is not available for beneficiaries who are in the eighth (8th) or ninth (9th) grade; or
- (c) Extended monthly payments beginning on February 1 and continuing on a monthly basis until May of the Projected College Entrance Date of the Designated Beneficiary. The amount of the monthly payment is specified in the Participation and Payment Schedule.

**4.02 Change in PACT Contract Payment Schedule**-The Purchaser may request a change in payment schedule any time during the enrollment period through the 10th day of February without incurring a fee. After this time, a fee will be charged. Additional amounts may be due when changing from the extended to the five-year monthly plan.

**4.03 PACT Contract Payment Grace Period** – All PACT Contract payments are due on the first day of the month and are delinquent after the 15<sup>th</sup> day of the month. A late fee is assessed for all delinquent payments.

**4.04 PACT Contract Payment Methods-** The following payment methods are available to the Purchaser:

- (1) Payment by coupon book;
- (2) Automatic deduction from a bank account; or
- (3) Payroll deduction if offered by employer.

**4.05 Early Payoff-** Purchasers electing a monthly payment plan may pay off the plan early without penalty.

**4.06 Advance Payments** – The Purchaser can make payments larger than the specified payment amount or more frequently than monthly.

## **SECTION 5**

### **PACT CONTRACT BENEFITS**

**5.01 Contract Benefits** - Benefits will be based on the contract purchased. For all PACT Contracts, the academic equivalent units for tuition hours and Qualified Fee payments will apply, if the college/university is not a semester system.

**5.02 General** – Only one (1) “Four-Year” University Contract or four (4) “One-Year” Contracts is allowed per Designated Beneficiary.

**5.03 Payment of Benefits - Alabama Public Eligible Educational Institutions** – The Purchaser or Designated Beneficiary must inform the Eligible Educational Institution that PACT Contract benefits are available. The institution has access to a website to verify eligibility. The institution will invoice PACT after the end of the official drop/add period. Payment is made directly to the Eligible Educational Institution for undergraduate tuition/Qualified Fees only.

**5.04 Payment of Benefits - Alabama Independent/Private, an Out-of-State or Foreign Eligible Educational Institution-** Payment will be made based on the Current Tuition Value of the contract purchased. The payment will not exceed the actual cost of undergraduate tuition and Qualified Fees. Payment is made directly to the Eligible Educational Institution. A processing fee is deducted from the amount paid each term.

Payment of PACT Contract benefits to these institutions will be made only when all of the following have occurred:

- (1) The Purchaser or Designated Beneficiary has submitted a written request providing information on the Eligible Educational Institution the Designated Beneficiary will attend. The request should be submitted no less than sixty (60) days in advance of the first academic term for which PACT Contract benefits are to be paid; and
- (2) PACT has received a valid invoice from the Designated Beneficiary’s institution after the end of the official drop/add period; and
- (3) For foreign institutions, the institution must agree to accept payment in United States currency.

If the Designated Beneficiary takes course credit at a foreign institution through a United States Eligible Educational Institution and that institution invoices for the credits, payment will be made at the customary charges of the United States Eligible Institution.

**5.05 Payment of Benefits - Multiple “One-Year” Contracts** – For multiple contracts for the same Designated Beneficiary,

- (1.) Benefits will be paid from each contract in the order the contracts were received and processed by PACT.
- (2.) Each contract must be depleted of tuition hours before the next contract can be used.

**5.06 Advancement of PACT Contract Benefits.** – PACT Contract benefits can be used up to three (3) years in advance of the Projected College Entrance Date of the original Designated Beneficiary. However, the ten year period for the use of benefits will commence on the advanced Projected College Entrance Date. The Purchaser should provide written notice 60 days in advance of intention to advance benefits and the PACT Contract must be paid in full.

If the beneficiary advances in school after the PACT Contract is purchased or elects to take college courses while attending high school, there will be no adjustment in the PACT Contract payment schedule and no additional payment will be required.

**5.07 Identification for Designated Beneficiaries-** A list of Designated Beneficiaries is made available to the colleges/universities in the State of Alabama.

**5.08 Payment of Benefits/No Adjustment** -Any credit hours paid on behalf of a Designated Beneficiary reduce the remaining available credit hours under the PACT Contract, even if the credit hours are not counted toward a college degree. Once an invoice has been paid, there will be no adjustment to the beneficiary’s account unless an error was made by the Eligible Educational Institution.

**5.09 Payment of Backdated Invoices** – The Purchaser is responsible for instructing the Eligible Educational Institution to invoice PACT on behalf of the Designated Beneficiary. PACT will not pay previous invoices submitted for payment more than a year from the date of the term when the benefits were received.

**5.10 Scholarship** – If the Designated Beneficiary receives a scholarship, the Purchaser can request any of the following:

- (1) For the institution to invoice PACT for tuition/Qualified Fees;
- (2) To transfer the benefits to a Substitute Beneficiary who does not have a PACT Contract; or
- (3) Cancellation of the PACT Contract. The cancellation fee will be waived.

## **SECTION 6**

### **PACT CONTRACT PURCHASER/OWNERSHIP**

**6.00 Purchaser Eligibility** -The Purchaser of a PACT Contract may be a natural person, a corporation, a trust, or a charitable organization. The Purchaser, if a natural person, must be nineteen (19) years of age or older, or must be represented by a court appointed conservator or guardian, or a trustee, or a designated custodian under the provisions of Title 26-2-20, Code of Alabama, 1975, (as last amended). (See Section 12 for Entities.)

**6.01 Nonacceptance of the Purchaser’s Application** -A prospective Purchaser may be denied a PACT Contract if:

- (1) The proposed beneficiary is not an eligible beneficiary;
- (2) The Purchaser fails to submit the application during the enrollment period;
- (3) The Purchaser refuses to submit an application with complete information, or the Application Fee, or to sign the application;

(4) The Board limits the number of PACT Contracts sold.

**6.02 Purchaser's Rights** – The following are rights reserved strictly for the Purchaser:

- (1) Voluntary cancellation of the PACT Contract or reinstatement;
- (2) Right to any Refund;
- (3) Right to make changes to the PACT Contract;
- (4) Right to restrict the use of PACT Contract benefits;
- (5) On-line access to the PACT Account(s) (Available once an account has been established through a link at [www.treasury.alabama.gov](http://www.treasury.alabama.gov)).

**6.03 Number of Purchasers per PACT Contract**-Only one (1) individual or entity may be named on each PACT application and in the PACT Contract as the Purchaser. Joint Purchasers are not permitted. However, a Successor Account Owner may be designated by the Purchaser.

**6.04 Transfer of PACT Contract Ownership** -All requests to transfer ownership of the PACT Contract to another qualified Purchaser must be submitted on the official form. If the current Purchaser has died and cannot furnish a signature, proof of death and a copy of the section from the will evidencing the authority to make the change or Letters Testamentary or Letters of Administration, must accompany the request for a change in Purchaser. A fee is charged for this service. This fee is waived for death of the Purchaser.

**6.05 Successor Account Owner** – If a Successor Account Owner is named on the account, the transfer of ownership will occur when a copy of the death certificate of the Purchaser is received. A form to name a Successor Account Owner can be requested from PACT. The Successor must meet the eligibility requirements for a Purchaser.

**6.06 On Line Access to PACT Accounts** – The Purchaser is the only authorized person who can request on line access to a PACT Account. A password is provided to the Purchaser for access and it is the sole responsibility of the Purchaser to keep it secure and confidential. PACT accepts changes to an account in writing signed by the Purchaser, or changes and forms submitted on line from the Purchaser from the authorized PACT website.

## **SECTION 7**

### **DESIGNATED BENEFICIARY**

**7.00 Beneficiary Eligibility**-An individual may be named the original Designated Beneficiary of a PACT Contract if such individual meets ALL of the following requirements:

- (1) The individual is under the age of eighteen (18) on the first day of the PACT enrollment period; and
- (2) The individual has not completed the ninth (9th) grade as of the first day of the PACT enrollment period in question; and
- (3) The individual has been born at the time the application is submitted. and
- (4) The individual is a U.S. citizen, a permanent resident alien, or a dependent of a U.S. citizen or of a permanent resident alien.

**7.01 Beneficiary – “One-Year” Contract** – Up to Four (4) “One-Year” Contracts can be purchased for a single beneficiary.

**7.02 Beneficiary Substitutions**-The benefits of a PACT Contract may be transferred to an eligible Substitute Beneficiary. A fee is charged for this service, and is waived for death of the beneficiary. All requests for a “Beneficiary Substitution” must be submitted on the official form which is available at [www.treasury.alabama.gov](http://www.treasury.alabama.gov).

To qualify, the Substitute Beneficiary must meet all of the following requirements:

- (1) The Substitute Beneficiary must be born; and
- (2) The Substitute Beneficiary must be an Immediate Family Member of the original beneficiary as defined by the Internal Revenue Code of 1986; and
- (3) The Substitute Beneficiary must not have an active “Four-Year” University Contract or more than three (3) “One-Year” Contracts ; and
- (4) The Substitute Beneficiary must assume the same ten year period for the use of PACT Contract benefits as the original Designated Beneficiary.

Furthermore, if the original Designated Beneficiary has utilized PACT Contract benefits, the following additional requirements apply:

- (5) There must be at least fifteen (15) semester hours of tuition remaining; and
- (6) The beneficiary substitution must occur within three months of graduation of the Designated Beneficiary.

If the substitution occurs before the Projected College Entrance Date of the Designated Beneficiary and the substitute beneficiary is older than the original Designated Beneficiary, an Actuarial Assessment will be assessed. In the event of a beneficiary substitution to a younger beneficiary, monies previously paid to PACT will not be refunded.

**7.03 Use of Benefits** - No benefits will be paid for the Substitute Beneficiary prior to the date of the substitution.

**7.04 Designated Beneficiary** – The Designated Beneficiary is the only individual eligible to receive PACT Contract benefits

## **SECTION 8**

### **CANCELLATION/REINSTATEMENT**

**8.01 Voluntary PACT Contract Cancellation** –The Purchaser can request cancellation of a PACT Contract at any time by providing a signed written request.

**8.02 Involuntary PACT Contract Cancellation** – A PACT Contract will be automatically cancelled and a refund issued if PACT Contract payments are 6 months (180 days) in default or if no payment is received within 45 days of the first payment due date.

**8.03 Reinstatement of a PACT Contract** - A PACT Contract can be reinstated within six months of the date of cancellation. The amount required to bring the account current includes the total of all outstanding payments to date, all outstanding fees and an Actuarial Assessment.

## **SECTION 9**

### **REFUNDS/OVERPAYMENTS**

**9.00 General** - Refunds will be paid to the Purchaser.

**9.01 Refund Amount** –PACT Contract refund amounts will be the Redemption Value of the PACT Contract. Interest refunded is subject to tax and may be subject to a federal tax penalty. Additional information is available in the Disclosure Statement under “Tax Considerations”.

**9.02 No Refund** - If the Designated Beneficiary achieves a baccalaureate degree in fewer than the maximum number of credit hours provided under a PACT Contract, a refund will not be available. As soon as a Designated Beneficiary attains a baccalaureate degree, and/or utilizes the total number of credit hours provided under the PACT Contract, the PACT Contract is terminated.

**9.03 Refund in the Event of Death or Disability, Receipt of a Full or Partial Scholarship or Admittance to a Military Academy** - In any of these events, the Cancellation Fee will be waived.

**9.04 Refunds for PACT Contract Purchased Prior to 1996** - For PACT Contracts purchased prior to 1996, cancellation based on death/disability of the Designated Beneficiary, or Matriculation in a Military Academy or foreign institution, will result in a refund as defined in the Rules of the year the PACT Contract was purchased. The refund is the contract purchase amount with the weighted-average tuition rate applied from the date of purchase to the cancellation.

**9.05 Refund Resulting from Overpayment** – Once a PACT Contract is paid in full, any overpayment will be refunded to the Purchaser.

## **SECTION 10** **ROLLOVERS**

**10.01 Rollover to PACT from Another Qualified Tuition Program** – PACT will accept rollovers from Qualified Tuition Programs, provided a PACT account has already been established and the appropriate form is completed.

**10.02 Rollover from PACT to Another Qualified Tuition Program** – A Purchaser may submit a written request for cancellation of the PACT Contract. A refund check will be issued to the Purchaser. The cancellation letter from PACT may serve as documentation for the transfer to another Qualified Tuition Program.

**10.03 Rollover from PACT to PACT** – PACT will not convert contracts from one type to another.

## **SECTION 11** **SPECIAL PETITION**

**11.00 General**-Any aggrieved Purchaser or entity desiring to petition for relief from the Rules, may do so by submitting a written notarized petition to the Board. The response to the petition will be in writing to the Petitioner and will be made within ninety (90) days of receipt.

**11.01 – Requirements** - The following information is required in the petition:

- (1) The name and address of the person requesting relief;
- (2) The specific nature of the relief requested and the specific Rule;

- (3) The name and address of Purchaser and Designated Beneficiary on the disputed PACT Contract;
- (4) The PACT Contract account number(s) in question;
- (5) The Social Security number/Tax Identification number of Designated Beneficiary and Purchaser;
- (6) The date and sworn signature of the petitioner.

## **SECTION 12**

### **QUALIFIED ENTITIES**

**12.00 General-** For the purpose of these Rules, the term “Entity” shall mean any corporation, trust, charitable organization, or any other business or organization which is not a natural person.

**12.01 Application of the Rules -** Unless specifically exempted herein, all Rules pertaining to Purchasers and Designated Beneficiaries apply.

**12.02 Naming the Beneficiary-** An Entity which purchases a PACT Contract is not required to name the Designated Beneficiary at the time the application is submitted. However, if the Entity submits an application for an unnamed beneficiary, a Projected College Entrance Date for the unnamed beneficiary must be specified on the application. The age of the unnamed beneficiary on the application will be the normal age for a beneficiary expected to enter college in the academic school year corresponding to the Projected College Entrance Date. For purposes of PACT, the unnamed beneficiary will be called either “John Doe” or “Jane Doe.” The beneficiary should be named not less than six (6) months prior to the Projected College Entrance Date specified by the Entity on the application.

**12.03 Application-** The application must be accompanied with Articles of Incorporation or the Declaration Page of the Trust, whichever is applicable. Furthermore, the Entity must provide its Taxpayer Identification number on the application, and the application must be complete in all other respects.